

Message Text

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14

ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01

PRS-01 NSCE-00 SSO-00 USIE-00 INRE-00 /101 W

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC IMMEDIATE 4679

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LIMITED OFFICIAL USE KUALA LUMPUR 5512

E.O. 11652: N/A

TAGS: EARL, ENRG, MY

SUBJECT: PETROLEUM ROUNDUP

1. WE HAVE BEEN RECEIVING FROM DIFFERENT SOURCES UNCONFIRMED REPORTS THAT RAZALEIGH WILL BE SUCCEEDED BY KADIR SHAMSUDDIN AS PETRONAS CHAIRMAN EFFECTIVE OCTOBER 1, AND LOOK FOR THIS TO BE ANNOUNCED. RAZALEIGH IS SCHEDULED TO DEPART MALAYSIA SEPTEMBER 16 FOR THE IMF ANNUAL MEETING IN MANILA, THENCE TO COMMONWEALTH FINANCE MINISTERS MEETING IN HONG KONG FOLLOWED BY S.E. ASIAN IBRD VOTING BLOC MEETING IN SEOUL, RETURNING ABOUT OCTOBER 11. LOCAL PRESS TODAY CARRIED ANNOUNCEMENT OF KADIR SHAMSUDDIN'S RETIREMENT AS SECRETARY OF GOVERNMENT EFFECTIVE SEPTEMBER 30, BUT WITHOUT MENTION OF HIS BECOMING PETRONAS' CHAIRMAN, ALTHOUGH KADIR HAS BEEN GOING TO PETRONAS FREQUENTLY FOR BRIEFINGS. EXXON TELLS US THAT NEGOTIATIONS HAVE SLOWED IN EXPECTATION OF EARLY CHANGE OF PETRONAS CHAIRMAN. SINCE IT IS EXPECTED THAT PETRONAS MANAGING DIRECTOR JUNUS SUDIN (THE NUMBER TWO) WOULD RESIGN FROM PETRONAS AT SAME TIME AS

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RAZALEIGH, TWO PETRONAS MANAGING DIRECTORS (ROSTAM HAKI

AND WAN ISMAIL) ARE PRESENTLY VYING TO BE JUNUS' SUCCESSOR.

2. IN SEPT. 23 MEETING WITH FOREIGN MEDIA ON INVESTMENT, PRIME MINISTER IS QUOTED BY KENNETH WHITING OF AP AS SAYING RE OIL NEGOTIATIONS. BEGIN QUOTE: QUOTE: I CERTAINLY HOPE AND PRAY THAT AGREEMENT WILL BE REACHED ... WE MEAN IT. WE WANT THEM TO CONTINUE HERE. UNQUOTE. ASKED IF NEGOTIATIONS GOING SMOOTHLY. HUSSEIN SAID, QUOTE: THE COMPANIES ARE REALLY HARD CUSTOMERS. THEY WILL BARGAIN TO THE LAST DEOP OF OIL. UNQUOTE. HE SAID IT WAS IMPOSSIBLE FOR DOMESTIC POLITICAL REASONS TO AMEND PETROLEUM LAW QUICKLY. THAT WOULD QUOTE: CAUSE UNDUE MIS-UNDERSTANDING AMONG LOCAL PEOPLE (TO SEE HOW) THE GOVERNMENT EASILY GIVES WAY BECAUSE OF PRESSURE FROM BIG COMPANIES, MULTINATIONALS AND SO ON. WE DON'T LIKE TO GIVE THAT IMPRESSION ... UNQUOTE. END QUOTE.

3. ACCORDING TO DIPLOMATIC SOURCE, SENIOR INDONESIAN OIL OFFICIAL DURING RECENT CALLS ON TOP GOM OFFICIALS CAUTIONED AGAINST FOLLOWING INDONESIAN PETROLEUM EXAMPLE TOO CLOSELY SINCE SITUATION IN MALAYSIA DIFFERENT AND INDONESIA ITSELF NOW HAVING TO BACK OFF TO ASSURE CONTINUED EXPLORATION.

4. CONTINENTAL OIL, WHICH HAS BEEN MULLING OVER PETRONAS DRAFT RECEIVED ABOUT TWO MONTHS AGO, IS NOW SCHEDULED TO BEGIN FIRST WEEK OF OCTOBER TWICE-WEEKLY NEGOTIATIONS WITH PETRONAS.

5. RE AMENDMENT OF PETROLEUM ACT, IT APPEARS HERE THAT GOM IS SLOWLY PREPARING THE GROUNDWORK FOR REPEAL OF MANAGEMENT SHARES ARTICLE AT SUCH TIME AS IT IS CONSIDERED POLITICALLY POSSIBLE. WE HAVE ALSO HEARD THAT AMENDMENT WILL ADD LANGUAGE PROVIDING FOR PAYMENT OF COMPENSATION IN CASE OF NATIONALIZATION, SINCE THIS NOT PRESENTLY INCLUDED IN ACT OR AMENDMENT.

6. WHILE THE PROCESS IS SLOW AND COMPLICATED BY DOMESTIC POLITICAL AS WELL AS ECONOMIC CONSIDERATIONS, WE CONTINUE TO HOLD VIEW THAT PRIME MINISTER DOES WANT TO REACH AGREEMENT WITH OIL COMPANIES, BUT ON MOST FAVORABLE TERMS POSSIBLE. THE GOM HAS BEEN TESTING THOSE TERMS IN RECENT WEEKS, BACKED BY A DEADLINE AND THREAT OF NATIONALIZATION. LIMITED OFFICIAL USE

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HAVING GIVEN THIS A GOOD GO, WE NOW SPECULATE THERE MAY BE A CHANGE IN PETRONAS CHAIRMAN, TOGETHER WITH SOME CHANGE IN POSITION ON THOSE PROVISIONS WHICH CAUSE OIL COMPANIES GREATEST PROBLEMS. WE DO NOT VENTURE ANY GUESS ON DEGREE OF CHANGE SINCE WE DO NOT KNOW WHAT EXXON MINIMUM POSITION REALLY IS OR GOM'S PERCEPTIONS OF REALITIES OF ITS OR EXXON POSITION. WEIGHING HEAVILY IN OUR JUDGMENT IS MAJOR ROLE OF PRIVATE SECTOR IN THIRD MALAYSIA PLAN AND COMPELLING NEED TO RE-ESTABLISH AT

EARLY DATE FAVORABLE INVESTMENT CLIMATE TO WHICH PETROLEUM
NEGOTIATIONS ARE IMPORTANT OBSTACLE. THE 1977 BUDGET MESSAGE
SCHEDULED FOR PRESENTATION TO PARLIAMENT ADDS SENSE OF
URGENCY SINCE ANY EXPECTED SHORTFALL BY PRIVATE SECTOR IMPLIES
GREATER PUBLIC SECTOR ROLE IF SUFFICIENT GROWTH IS TO BE
MAINTAINED. THESE BUDGET JUDGMENTS WILL HAVE TO BE MADE
FAIRLY SOON.
UNDERHILL

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